



**DORAL FINANCIAL
CORPORATION**
Tu familia de servicios financieros



April 25, 2003

VALUATIONS

MSR's:

1. Cohane quarterly. When internal analysis determines an impairment by strata, such an impairment is recorded.
2. Historical and current purchases of MSR's by Doral and others comfortably supports external valuation. Demand for MSR's in Puerto Rico is high.

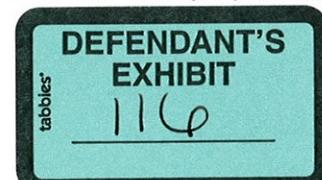
Not considered in valuation:

- a. Large PR financial institutions consistently willing to pay Doral for MSR's, prices considerably higher than valuation
- b. In addition, these financial institutions want to purchase from Doral for cross-selling to Doral's servicing accounts, financial products such as: credit cards, automobile loans, IRA accounts and unsecured consumer loans (which they know Doral Bank does not do normally). Offers start at \$500 per account (a minimum of \$71 million for Doral's approx. 142,000 servicing accounts).
- c. As of 10/31/02, the value to Doral of cross-selling 78,000 accounts in the GNMA/FNMA/FHLMC servicing portfolio related to deposits and second mortgages with Doral Bank and insurance products with Doral Insurance represented an annual income of \$11 million. (Estimated present value = \$58 million or \$740 per account which projected to Doral's entire servicing portfolio of 142,000 accounts would represent a present value of \$105 million).
- d. Prepayment penalty fees on non-conforming loans are currently running at approximately \$5,000,000 annually which projects to a \$20 million-plus present value. These prepayment penalty fees are not capitalized as MSR's.
- e. Doral could securitize its approx. \$2.3 billion mortgage loans held for sale and mortgage loans receivable and capitalize as MSR's, with an estimated value of \$35 million.

HF Mortgage Bankers • Doral Mortgage Corporation • Doral Bank • Doral Bank, FSB, NY • Doral Securities • Centro Hipotecario Sano Investment Mortgage Bankers • Doral Insurance Agency, Inc.

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IO's:

1. Morgan Stanley - Quarterly. Market prices
2. BP Securities – Quarterly. Economic valuation
3. Internal analysis – Quarterly.
4. Lowest of the three (3) valuations is used and recorded.
5. Throughout different interest rate cycles Doral has always realized profitable sales every year of a portion of its IO's. Last cash sale was on 10/2/02 for \$22.4 million or 7% of the total IO's on the books. For 2003, approximately \$50 million are scheduled for sale to meet a portion of the high demand for this high yielding asset.
6. Currently IO's produce a cash interest income of approximately 24% on the asset and a net yield (after amortization) of approximately 12%.

If actual spread in floating IO's is reduced as a result of increases in interest rates, it would be more than offset by:

1. Interest Rate Related

- a. Gain on hedging with Euro Options. See charts.
- b. Gain on hedging with \$1.2 billion of interest rate swaps. See charts.
- c. Contracts with buyers of mortgage loans provide for life caps on LIBOR rates (see BPPR agreement).
- d. Resulting higher mortgage rates will match or supersede increases in short-term rates allowing for WAC to increase proportionately with new loans sold and thus creating IO's with wider spreads.

2. Natural Hedges

- a. Higher interest rates will result in slower prepayments and lower PSA/CPR. This will increase the value of IO's (applies to MSR's also).
- b. In contracts with recourse (limited) Doral has the right to repurchase or substitute loans.

In a higher interest rate environment, Doral could substitute old loans with new ones, resulting in 1) outstanding balance remains intact, 2) WAM increases, 3) PSA/CPR is reduced and 4) value is enhanced.

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**DORAL FINANCIAL
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SERVICING ASSETS VALUATION

**POLICIES
&
PROCEDURES MANUAL**

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